BC Chicken Growers' ASSOCIATION

March 17, 2021

BY EMAIL

RE: Response to Question on Processors' Margins

Wendy Holm, BCFIRB Liaison

Dear Wendy,

Thank you for your follow-up email, dated March 13, 2021, requesting further information to the question you had brought up during the March 10, 2021 BC Chicken Marketing Board meeting. You were wanting to better understand the methodology behind the BC Chicken Growers' Association's estimate of processors' margin differentials as this is an important point in our submission. Specifically, you wanted to understand better the process that led us to reject the updated processing plant model's finding of one cent difference in processor margins (BC vs Ontario) in favour of 10 cent difference in processor margins.

The attached document: Note on B.C. Processor Pricing re: Wendy Holm Comments - March 13, 2021 by Kevin Grier, provides these answers. It basically says that using the 2015 data the difference is one cent but a further dive into current 2020 data reveals a higher difference. The BCCGA trusts this information is defensible and clear on the approach and reasoning. This brings the processors' returns into the spotlight and does not just focus on their costs.

We appreciate your question to seek further clarification.

Sincerely,

Dale Krahn
President
BC Chicken Growers' Association

Cc: Harvey Sasaki, Chair, BC Chicken Marketing Board
Bill Vanderspek, BCCMB, Executive Director

P.O. Box 581, Abbotsford, BC V2T 6Z8

tel 604.859.9332 | www.poultryinmotion.ca | office@bcchickengrowers.ca

Note on B.C. Processor Pricing re: Wendy Holm comments March 13, 2021

Issue

Ms. Holm stated that "I am hoping to understand better the methodology behind your estimate of processor margin differentials because this is an important point in your submission. Specifically, I'd like to understand better the process that led you to reject your (updated) processing plant model's finding of 1¢ difference in processor margins (BC vs Ontario) in favour of 10¢ difference in processor margins. "

Response

The key issue rests with the revenue or price end of the margin equation. The Mussell model was developed in 2015 and at that time it incorporated at ten cent B.C. over Ontario chicken meat price differential. The updated version of that model in 2020 incorporated the same pricing differential. The ten cent differential was regarded as conservative and based on the dated 2015 information. Using that price differential in 2020 resulted in the very narrow margin differential of one cent as noted by Ms. Holm.

Subsequent sections of the report were more intensely focused on the nature of chicken meat pricing in B.C. These sections focused on how chicken is priced and the differentials of B.C. pricing versus other regions, particularly Ontario. These subsequent sections demonstrated that the likely differential between BC and Ontario is far greater than just ten cents.

Further to that, it was asserted in that paper that a good way to determine pricing differentials between provinces at the wholesale level is to look at chicken prices at the retail level. Retail price differentials between regions are a good gauge of relative processor prices between regions. That is because grocers generally take the cost of the goods and add a margin on regularly priced items.

One source of retail pricing is Nielsen MarketTrack. That data set takes total dollars sold divided by tonnage to get an average retail per kilogram. Based on that data, over the 2015-2020 period, B.C. chicken prices averaged about 9% higher than Ontario. It is reasonable to assert that B.C. prices at the processor level are 9% higher than in Ontario. This is a reasonable assertion because it is based on annual average prices over a six-year time frame. Further assessment of the retail price differential can be done using Agriculture Canada's Nielsen data for individual cuts. Using this data, the BC-Ontario differential was a positive 12%.

Another example of retail pricing differentials is boneless breast features. Ontario boneless breast features are typically $3.99/pound. Western and BC features are more typically $4.99/pound or more. That differential is about 25% more in BC than Ontario.

The paper goes on to state that not all the differential between Ontario and BC might be processor costs. The paper says that Ontario is probably a more competitive grocery environment. The paper says that given that Ontario retail pricing may be more competitive than BC, the processor price differential

may be more in the range of 7-8%. In other words, the paper is conceding that BC processors may not be getting 12% more than Ontario processors, but this could very well be the case.

Applying the 7-8% differential to the Chicken Farmer of Canada 2020 wholesale value can give an indication of the nominal value. Applying 7-8% to the $355 leads to a processor value differential of over $0.26/kg. Note this differential is sixteen cents greater than that used in the Mussell model.

A differential of this magnitude, which is entirely defensible based on retail prices, leads to the conclusion that BC processor gross margins are far superior to their Ontario counterparts, even with the modestly higher BC live bird costs.

For example, in 2020, the average market composite was $3.55/kg and the rough dressed costs of the birds in Ontario was $2.13/kg. The Ontario processor gross margin therefore was $1.41 (3.55-2.13). If the BC composite value were $0.26 greater than Ontario, the B.C. composite would be $3.81/kg. With a live price of 3% more than Ontario, the dressed bird cost would be $2.20. The B.C. gross margin would therefore be $1.61. The B.C. gross margin would therefore be $0.20 more than Ontario.

Again, as stated in the paper, BC growers can be seen to have the lowest gross margins on the prairies and Ontario. B.C. processors on the other hand can be shown to have the strongest gross margins on the prairies and Ontario.

Kevin Grier
March 16, 2021